

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF THE TOWN OF FRONT ROYAL AND
THE COUNTY OF WARREN, VIRGINIA**

DBA

ECONOMIC DEVELOPMENT AUTHORITY

Front Royal, Virginia

FINANCIAL REPORT

JUNE 30, 2016

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INDEPENDENT AUDITOR'S REPORT

To the Board Members
Industrial Development Authority of the
Town of Front Royal and the County
of Warren, Virginia
Front Royal, Virginia

Report on the Financial Statements

We have audited the accompanying basic financial statements of the Industrial Development Authority of the Town of Front Royal and the County of Warren, Virginia, dba Economic Development Authority, a component unit of the County of Warren, Virginia as of and for the years ended June 30, 2016 and 2015, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Industrial Development Authority of the Town of Front Royal and the County of Warren, Virginia as of June 30, 2016 and 2015, and the respective changes in its financial position and the cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3-7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2016 on our consideration of the Industrial Development Authority of the Town of Front Royal and the County of Warren, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Industrial Development Authority of the Town of Front Royal and the County of Warren, Virginia's internal control over financial reporting and compliance.



Winchester, Virginia
December 5, 2016

Management's Discussion and Analysis

As management of the Industrial Development Authority of the Town of Front Royal and the County of Warren DBA Economic Development Authority (EDA), Virginia, we offer the readers of the EDA's financial statements this narrative overview and analysis of the financial activities of the EDA for the fiscal year ended June 30, 2016.

FINANCIAL HIGHLIGHTS

- The assets of the EDA exceeded its liabilities at June 30, 2016 by \$3,814,445 (net position).
- In comparison with the prior fiscal year, the EDA's total net position increased by \$841,893.
- During fiscal year 2016, the EDA's total liabilities increased by \$12,142,516 from \$12,134,601 to \$24,277,117. New debt was issued related to IT Federal, LLC.

OVERVIEW OF THE FINANCIAL STATEMENTS

This Management's Discussion and Analysis serves as an introduction to the EDA's basic financial statements, including notes to the financial statements.

FINANCIAL STATEMENTS

The financial statements are designed to provide readers with a broad overview of the EDA's finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all of the EDA's assets and liabilities, using the accrual basis of accounting, with the difference between the two reported as net position. Over time, increases or decreases in net assets help determine whether the EDA's financial position is improving or deteriorating.

The Statement of Revenue, Expenditures, and Changes in Net Position presents information showing how the EDA's net position changed during the most recent fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The financial statements can be found on pages 8 through 13 of this report.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

The notes to the financial statements can be found on pages 14 through 30 of this report.

FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the EDA, assets exceeded liabilities by over \$3.8 million at the close of the most recent fiscal year. The following chart presents a summary of the EDA's Statements of Net Position.

Summary of Statement of Net Position June 30, 2016 and 2015

	<u>Fiscal Year 16</u>	<u>Fiscal Year 15</u>
Current and other assets	\$ 11,435,215	\$ 1,439,931
Construction in progress	3,914,467	886,646
Land investments	10,406,861	10,841,400
Property and equipment	2,058,801	1,496,737
Intangible assets	276,218	442,439
Total assets	<u>\$ 28,091,562</u>	<u>\$ 15,107,153</u>
Current and other liabilities	\$ 5,760,894	\$ 3,414,361
Long-term liabilities	18,516,223	8,720,240
Total liabilities	<u>\$ 24,277,117</u>	<u>\$ 12,134,601</u>
Net position:		
Unrestricted	\$ 2,729,568	\$ 2,509,232
Restricted	27,579	27,579
Invested in capital assets, net of related debt	1,057,298	435,741
Total net position	<u>\$ 3,814,445</u>	<u>\$ 2,972,552</u>

The EDA's combined net position totaled \$3,814,445 on June 30, 2016. The investment in capital assets (e.g. land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding amounted to \$1,057,299. The EDA uses these capital assets to provide services to citizens; and thus these assets are not available for future spending. Although the EDA's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets and real estate investments are not liquid to pay liabilities. Net position includes \$27,579 that is restricted for scholarships and specific property insurance. The remaining \$2,729,567 is unrestricted and may be used to meet the EDA's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the EDA is able to report positive balances in all three categories of net position.

CHANGES IN NET ASSETS

The following is a summary of the changes in net position for the current and prior fiscal year.

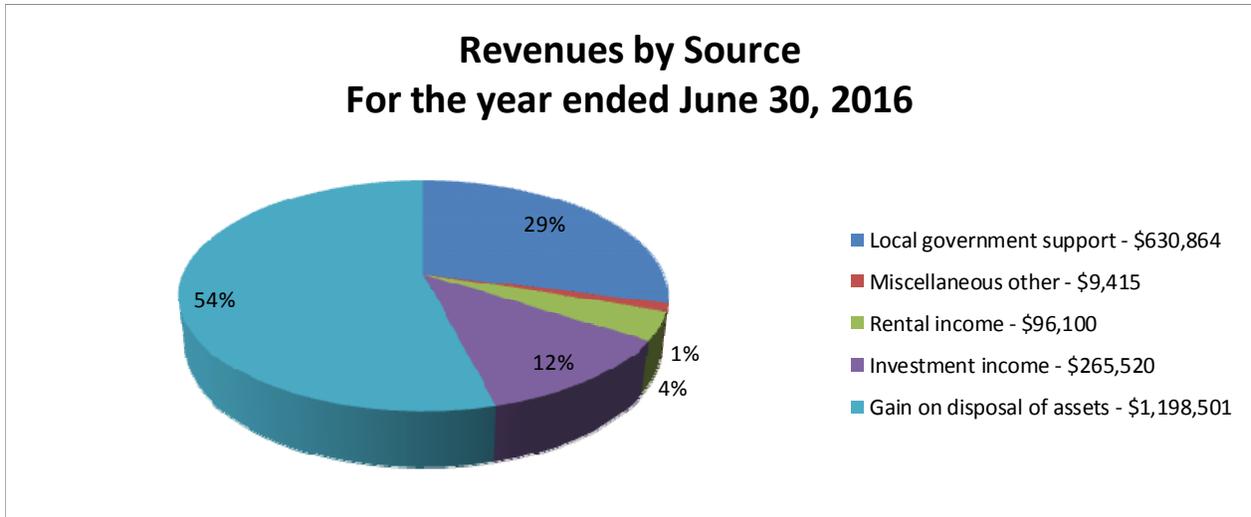
Summary of Changes in Net Assets June 30, 2016 and 2015

	<u>Fiscal Year 16</u>	<u>Fiscal Year 15</u>
Revenues		
Local government support	\$ 630,864	\$ 507,697
Miscellaneous other	9,415	7,666
Rental income	96,100	94,525
Investment income	265,520	24,370
Gain on disposal of assets	1,198,501	- -
Total revenues	<u>\$ 2,200,400</u>	<u>\$ 634,258</u>
Expenses		
Personnel expenses	\$ 297,426	\$ 278,785
Scholarship expenses	500	776
Operating expenses	567,208	308,170
Depreciation	42,062	41,524
Interest expense	451,311	211,147
Total expenses	<u>\$ 1,358,507</u>	<u>\$ 840,402</u>
Change in Net Position	<u>\$ 841,893</u>	<u>\$ (206,144)</u>

ANALYSIS OF REVENUES

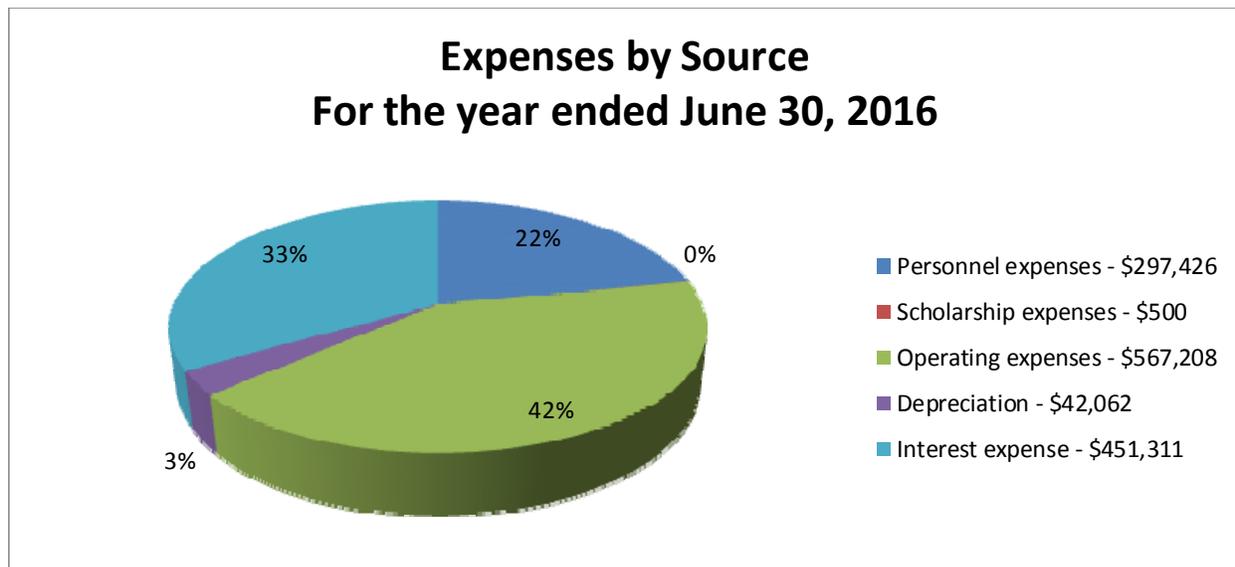
The EDA's revenues are comprised of governmental support, contributions, loan administration fees, rentals, interest income and gain on disposal of assets.

Operating Revenues totaled \$736,379 of which 86 percent is from local government support. The EDA annually receives an operating and capital appropriation from both the Town of Front Royal and County of Warren in support of the EDA's activities. The overall percentage of funds received from the Town of Front Royal and the County of Warren increased due to acquisition of property for the Leach Run Parkway project. The following chart provides the allocation of revenues by source.



ANALYSIS OF EXPENSES

For year ending June 30, 2016, the Economic Development Authority increased its operating expenditures from the previous fiscal year, but was able to keep the increase to a little over \$275,000. The following chart provides the allocation of expenses by source.



REVIEW OF LONG-TERM DEBT

The EDA continues to pay off loans secured by properties located in the Happy Creek Technology Park, Stephens Industrial Park, 404 Fairground Rd., Avtex property, Leach Run Properties, and Success Park.

The EDA continues repayment of a \$150,000 loan to renovate the Avtex Fibers Administration Building, which serves as the gateway to a 147-acre parcel of land slated for development within one to five years. The building was leased during the fiscal year 2015-2016 to Amerisist, Optimum Impact and Northern Shenandoah Valley Regional Commission.

The EDA continues repayment of a loan in the amount of \$10 million to assist ITFederal in their redevelopment efforts at the Avtex site. ITFederal is 100% responsible for the loan.

ECONOMIC FACTORS

The Town of Front Royal's unemployment rate for June 2016 was 3.8 percent, which was 1.0 percent decrease than the same period in fiscal year 2015. This compares to the State's unemployment rate of 3.7 percent and the national average rate of percent 4.9 percent for June 2016.

Front Royal-Warren County has experienced growth with the expansion of existing industries. These expansions are partly the result of economic development initiatives, which are focused on encouraging existing firms to remain and expand their facilities.

Economic development initiatives include the ongoing development of two industrial parks, one superfund site and one "Technology" park. Recent industrial and commercial growth in the area includes:

- Toray expansion in the Stephens Industrial Park
- Announcement of the Skyline Regional Criminal Justice Academy
- Several small companies were recruited over the past fiscal year, totaling 141 jobs.
- ITFederal announced it will be locating at the former Avtex site.
- Nature's Touch began operation in the Stephens Industrial Park.
- KTS Solutions opened and expanded its operation at the Inland Port.
- Interbake had continued expansion within the fiscal year.
- CBM Mortgage, Hidden Springs, and several other businesses held ribbon cuttings for expansions, relocations, and start-up.

The Economic Development Authority currently owns 418.5 of land zoned industrial in Front Royal and Warren County. As the EDA moves forward with its careful development of those various parcels of land, it is believed that private developers will be encouraged to continue making investments in Front Royal and Warren County.

The industrial portion of the Avtex site has been completely remediated and released by the EPA for future development. The vision for the former superfund site has changed over time and the EDA still continues to support the remediation efforts and future growth and development of the site. The EDA continues to work with developers interested in locating at the site.

Requests for Information

This financial report is designed to provide a general overview of the Industrial Development Authority's finances for those interested parties. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Executive Director, Economic Development Authority, P.O. Box 445, Front Royal, Virginia 22630, (540) 635-2182.

**INDUSTRIAL DEVELOPMENT AUTHORITY OF THE TOWN OF
FRONT ROYAL AND THE COUNTY OF WARREN, VIRGINIA**

Statements of Net Position
Years Ended June 30, 2016 and 2015

Assets	2016	2015
Current Assets		
Cash and cash equivalents, unrestricted	\$ 870,544	\$ 702,370
Cash and cash equivalents, restricted	27,579	27,579
Prepaid expenses	13,495	12,514
Accounts receivable	110	110
Accrued interest receivable	10,562	--
Current portion of notes receivable	337,762	107,750
Total current assets	<u>\$ 1,260,052</u>	<u>\$ 850,323</u>
Long-Term Notes Receivable , net of allowance	<u>\$ 10,175,163</u>	<u>\$ 589,608</u>
Construction in Progress		
Leach Run Parkway	\$ 3,448,311	\$ 886,646
Criminal Justice Academy	219,536	--
West Main Extension Project	246,620	--
Total construction in progress	<u>\$ 3,914,467</u>	<u>\$ 886,646</u>
Land Investments		
Land, Happy Creek Industrial Park	\$ 1,213,694	\$ 1,238,800
Land, Success Industrial Park	2,142,800	2,142,800
Avtex	3,604,454	3,518,800
Land, Happy Creek Road	--	200,300
Land, Ramsey Property	137,013	317,000
Land, Leach Run Property	432,800	432,800
Land, Benson Property	20,000	20,000
Land, 1425 Happy Creek Road	40,000	40,000
Land, 1433 Happy Creek Road	40,000	40,000
Land, 5262 Strasburg Road	1,696,700	1,696,700
Land, 1546 John Marshall Highway	153,600	153,600
Land, 1532 John Marshall Highway	88,500	88,500
Land, 1528 John Marshall Highway	99,000	99,000
Land, 1519 Happy Creek Road	--	114,800
Land and Improvements, Stokes Mart	477,000	477,000
Land, Afton Inn Property	261,300	261,300
Total land investments	<u>\$ 10,406,861</u>	<u>\$ 10,841,400</u>
Property and Equipment		
Furniture, Fixtures and Equipment	\$ 129,292	\$ 126,680
Building, 404 Fairground Road	335,184	335,184
Land, 404 Fairground Road	90,000	90,000
Improvements, 404 Fairground Road	13,381	10,565
Building, 1325 Progress Drive	177,315	177,315
Land, 1325 Progress Drive	38,579	38,579
Improvements, 1325 Progress Drive	214,509	214,509
Improvements, 404 Kendrick Lane	133,000	133,000
Land, Stephens Industrial Park	470,607	470,607
Improvements, Stephens Industrial Park	279,544	279,544
Land, Royal Lane Property	572,511	--
Workforce Housing Project	34,684	8,497
	<u>\$ 2,488,606</u>	<u>\$ 1,884,480</u>
Less accumulated depreciation	429,805	387,743
Total property and equipment, net	<u>\$ 2,058,801</u>	<u>\$ 1,496,737</u>
Intangible Assets		
Easements, Leach Run Parkway, net	\$ 57,833	5,667
Easement, New Covenant Church, net	10,519	21,039
Easement, New Hope Bible Church, net	207,866	415,733
Total intangible assets, net	<u>\$ 276,218</u>	<u>\$ 442,439</u>
Total assets	<u>\$ 28,091,562</u>	<u>\$ 15,107,153</u>

See Notes to Financial Statements.

Liabilities and Net Position	<u>2016</u>	<u>2015</u>
Current Liabilities		
Accounts payable	\$ 233,606	\$ 129,573
Accrued interest payable	29,336	9,883
Accrued pension	2,848	2,483
Accrued expenses	25,289	4,892
Security deposits	7,306	7,306
Unearned revenue	3,234,706	975,759
Current portion of long-term notes payable	<u>2,227,803</u>	<u>2,284,465</u>
Total current liabilities	<u>\$ 5,760,894</u>	<u>\$ 3,414,361</u>
Long-Term Notes Payable,		
less current maturities	<u>\$ 18,516,223</u>	<u>\$ 8,720,240</u>
Total liabilities	<u>\$ 24,277,117</u>	<u>\$ 12,134,601</u>
Net Position		
Unrestricted net position	\$ 2,729,568	\$ 2,509,232
Invested in capital assets, net of related debt	1,057,298	435,741
Restricted net position	<u>27,579</u>	<u>27,579</u>
Total net position	<u>\$ 3,814,445</u>	<u>\$ 2,972,552</u>
Total liabilities and net position	<u>\$ 28,091,562</u>	<u>\$ 15,107,153</u>

**INDUSTRIAL DEVELOPMENT AUTHORITY OF THE TOWN OF
FRONT ROYAL AND THE COUNTY OF WARREN, VIRGINIA**

Statements of Revenue, Expenditures, and Changes in Net Position
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating Revenues		
Town of Front Royal, debt service	\$ 154,590	\$ 125,731
County of Warren, operating	117,261	115,300
County of Warren, debt service	359,013	266,666
Avtex event, net of expenses	--	4,389
Miscellaneous income	3,440	2,252
Contributions, industry scholarship	5,975	1,025
Rental income	<u>96,100</u>	<u>94,525</u>
Total revenues	<u>\$ 736,379</u>	<u>\$ 609,888</u>
 Expenditures		
Advertising	\$ 19,353	\$ 8,189
Aerial maps	--	4,927
Amortization	276,219	2,833
Auto expense	6,000	6,000
Bad debt expense	9,619	64,137
Computer expenses	244	1,062
Community project	23,724	2,166
Contingency	1,000	2,013
Copier lease, supplies and printing	5,397	4,737
Deferred compensation	20,971	19,600
Depreciation	42,062	41,524
Dues and subscriptions	5,102	5,480
Employee benefits	45,273	41,778
Existing industry	2,798	4,533
Insurance	34,022	26,965
Miscellaneous	645	--
Office supplies	2,307	2,830
Payroll taxes	<u>16,478</u>	<u>15,625</u>
Subtotal expenditures carried forward	<u>\$ 511,214</u>	<u>\$ 254,399</u>

See Notes to Financial Statements.

**INDUSTRIAL DEVELOPMENT AUTHORITY OF THE TOWN OF
FRONT ROYAL AND THE COUNTY OF WARREN, VIRGINIA**

**Statements of Revenue, Expenditures, and Changes in Net Position
(Continued)**

Years Ended June 30, 2016 and 2015

	2016	2015
Subtotal expenditures carried forward	\$ 511,214	\$ 254,399
Personnel expenses	214,704	201,782
Postage and delivery	1,261	2,485
Professional fees	44,037	36,327
Prospect expenses	2,819	1,460
Refinanced loan costs	6,188	--
Scholarship expense	500	776
Telephone	8,473	7,765
Travel and training, general	5,071	4,181
Utilities and maintenance	112,929	120,080
Total operating expenditures	\$ 907,196	\$ 629,255
Operating (loss)	\$ (170,817)	\$ (19,367)
 Nonoperating Revenues and Expenses		
Interest income	\$ 265,520	\$ 24,370
Interest expense	(451,311)	(211,147)
Gain on disposal of assets	1,198,501	--
Net nonoperating income (expenses)	\$ 1,012,710	\$ (186,777)
Change in net position	\$ 841,893	\$ (206,144)
 Net Position, beginning of year, 2015 as restated	 2,972,552	 3,178,696
 Net Position, end of year	 \$ 3,814,445	 \$ 2,972,552

See Notes to Financial Statements.

**INDUSTRIAL DEVELOPMENT AUTHORITY OF THE TOWN OF
FRONT ROYAL AND THE COUNTY OF WARREN, VIRGINIA**

Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities		
Cash received from governmental support and grants	\$ 630,864	\$ 507,697
Cash received from loan program and administration	3,440	2,252
Cash received from contributions	5,975	16,675
Cash received from rental income	239,689	246,786
Cash payments to suppliers for goods and services	(209,458)	(290,889)
Cash payments to employees for services, and related expenses	(297,061)	(278,386)
Net cash provided by operating activities	<u>\$ 373,449</u>	<u>\$ 204,135</u>
Cash Flows from Capital and Related Financing Activities		
Cash paid for interest	\$ (431,858)	\$ (209,225)
Purchase of property and equipment	(604,126)	(8,497)
Proceeds from issuance of debt	10,750,000	1,592,807
Principal payments on long-term debt	(1,010,679)	(264,794)
Net cash provided by capital and related financing activities	<u>\$ 8,703,337</u>	<u>\$ 1,110,291</u>
Cash Flows from Investing Activities		
Purchase of investments	\$ (34,617)	\$ (567,963)
Purchase of construction in progress (CIP)	(3,027,821)	(311,715)
Purchase of intangible assets	(110,000)	(443,272)
Proceeds from sale of investments	1,718,694	-
Principal payments received from notes receivable	230,005	139,050
Cash received for CIP reimbursement	2,115,358	329,301
Disbursements on notes receivable	(10,065,751)	(533,035)
Interest income	265,520	24,370
Net cash (used in) investing activities	<u>\$ (8,908,612)</u>	<u>\$ (1,363,264)</u>
Increase (decrease) in cash and cash equivalents	\$ 168,174	\$ (48,838)
Cash and Cash Equivalents		
Beginning of year	<u>729,949</u>	<u>778,787</u>
End of year	<u>\$ 898,123</u>	<u>\$ 729,949</u>

See Notes to Financial Statements.

**INDUSTRIAL DEVELOPMENT AUTHORITY OF THE TOWN OF
FRONT ROYAL AND THE COUNTY OF WARREN, VIRGINIA**

Statements of Cash Flows

(Continued)

Years Ended June 30, 2016 and 2015

	2016	2015
Reconciliation of Operating Loss to Net Cash provided by Operating Activities		
Operating (loss)	\$ (170,817)	\$ (19,367)
Adjustments to reconcile operating (loss) to net cash provided by operating activities:		
Amortization	276,219	2,833
Depreciation	42,062	41,524
Bad debt expense	9,619	64,137
Changes in assets and liabilities:		
(Increase) in prepaid expenses	(981)	(3,012)
Increase (decrease) in accounts payable	52,996	(33,326)
Increase (decrease) in accrued expenses	20,397	(1,314)
Increase in accrued pension	365	399
(Decrease) in security deposit	--	(94)
Increase in unearned revenue	143,589	152,355
Net cash provided operating activities	\$ 373,449	\$ 204,135
 Reconciliation of Cash		
Cash and cash equivalents, unrestricted	\$ 870,544	\$ 702,370
Cash and cash equivalents, restricted	27,579	27,579
	\$ 898,123	\$ 729,949
 Supplemental Schedule of Noncash Activities,		
investments purchased with new debt	\$ --	\$ 510,000

See Notes to Financial Statements.

**INDUSTRIAL DEVELOPMENT AUTHORITY OF THE TOWN OF
FRONT ROYAL AND THE COUNTY OF WARREN, VIRGINIA**

Notes to Financial Statements

Note 1. Nature of Business and Summary of Significant Accounting Policies

The Industrial Development Authority of the Town of Front Royal and the County of Warren, Virginia was created as a political subdivision of the Commonwealth of Virginia by ordinance of the Town Council of the Town of Front Royal and the Board of Supervisors of the County of Warren to be effective on December 21, 1967 pursuant to the provisions of the Economic Development and Revenue Bond Act (Chapter 33, Section 15.1-1373 through 15.1-1390, et seq., of the Code of Virginia (1950), as amended.) The Authority is governed by seven directors appointed by the Town of Front Royal and County of Warren, Virginia. The Authority is considered a component unit of the County of Warren, Virginia, and is included as such in the County's Financial Statements.

The general purpose of the Authority is to foster and stimulate the development of industry in the Front Royal-Warren County area for the general good of its people and the Commonwealth of Virginia.

The Authority may acquire, own, lease, and dispose of properties to the end that the Authority may be able to promote industry and develop trade by inducing manufacturing, industrial, governmental and commercial enterprises and institutions of higher education to locate in or remain in this Commonwealth and further the use of its agricultural products and natural resources, and to vest the Authority with all powers that may be necessary to enable them to accomplish such purposes, which powers shall be exercised for the benefit of the inhabitants of the Commonwealth, either through the increase of their commerce, or through the promotion of their safety, health, welfare, convenience or prosperity. The Authority shall not operate any such manufacturing, industrial or commercial enterprise or any facility of an institution of higher education.

In addition, the Authority is authorized to issue revenue bonds for the purpose of obtaining and constructing facilities. Liability under the bonds may be retained by the Authority or it may be assumed by the enterprises for whom facilities are constructed. Collection of revenues pledged to liquidate the bonds may be assigned to a trustee. The revenue bonds are not deemed to constitute a debt or pledge of the faith and credit of the Commonwealth of Virginia or any municipality thereof. The bonds are payable solely from revenues generated from the lease of the facilities constructed and may be secured by a deed of trust on those facilities.

Basis of Accounting

The Authority uses the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Notes to Financial Statements

Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits and certificates of deposit, regardless of maturity date.

Property and Equipment

The costs of major improvements and additions are capitalized in the year incurred. Normal repairs and maintenance are expensed as incurred. Any gain or loss on the sale or disposition of property and equipment is recognized currently.

The Authority depreciates its assets, using the straight line method, over the following estimated useful lives:

	<u>Years</u>
Buildings and improvements	20-40
Furniture, fixtures and equipment	5-10

Depreciation expense for the years ended June 30, 2016 and 2015 was \$42,062 and \$41,524, respectively.

Notes Receivable

The Authority occasionally finances a portion of the purchase price when selling real estate and improvements.

The Authority participates in the Intermediary Relending Program with the U.S. Department of Agriculture whereby federal funds are received by the Authority and passed through to rural businesses in the form of loans. Upon repayment of the loans, the Authority pays off the related note payable to the U.S. Department of Agriculture.

Notes receivable are stated at the amount of unpaid principal less an allowance for credit losses, as deemed necessary. The allowance for credit losses is increased through a provision for credit losses charged to income, and decreased by charge-offs, net of recoveries, when management determines that collectability of all amounts when due is unlikely. The allowance is based on management's estimate of the amount necessary to absorb losses on existing loans. Management's estimate is based on a review of specific loans. As of June 30, 2016 and 2015, management estimated an allowance of \$77,484 for each of the years then ended. Cash collections on loans that are impaired are credited to the loan receivable balance, and no interest income is recognized on those loans until the principal balance has been collected.

Unearned Revenues

Unearned revenue represent amounts received, however, the Authority has not met all eligibility requirements in order to recognize them as income in the current period.

Notes to Financial Statements

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accrued Sick and Vacation Leave

The Authority allows up to 12 days sick leave each calendar year. Sick days may be accumulated up to a maximum of 130 days. Sick leave accumulation shall be forfeited upon separation from employment. However, upon retirement at a minimum age of 55 years, employees shall receive one-half of their accumulated sick leave to a maximum of 60 days. Such payment shall be made at the employee's regular rate of pay at the time of retirement. There was no accrued sick leave as of June 30, 2016 and 2015. Accrued sick leave is estimated based on the employees who had reached the minimum retirement age as of June 30. Vacation leave is earned based on years of service. No vacation leave will be permitted to accrue from calendar year to calendar year. Upon termination or retirement, the Authority pays unused vacation leave based on the employee's regular rate that is in effect.

Net Position

“Net assets invested in capital assets, net of related debt,” consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets invested in capital assets, net of related debt excludes unspent debt proceeds. Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Unrestricted net position can be designated by the Board of Directors. As of June 30, 2016 and 2015, the Authority has designated \$60,000 for both years to be distributed as Rural Business Loans.

Land Investments

The Authority purchases land for resale to fulfill its general purpose. Improvements to land are made to enhance development. The land investments and improvements are stated on the statements of net position at fair market value based on the most recent tax assessments, which approximates fair value.

Notes to Financial Statements

New Accounting Pronouncements

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are Not Within the Scope of GASB 68, and Amendments of GASB 67 and 68* (Statement 73) extends the approach to accounting and financial reporting established in Statement 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and non-employer contributing entities. It also clarifies the application of certain provisions of GASB 67 and 68. Statement 73 will be effective for the Authority beginning with its fiscal year ending June 30, 2017.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions* (Statement 74) replaces GASB 43 and GASB 57 and aims to improve the usefulness of information about postemployment benefits other than pensions. It establishes new accounting and financial reporting requirements for governments whose employees are provided with other postemployment benefits. Statement 74 will be effective for the Authority beginning with its fiscal year ending June 30, 2017.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (Statement 75) addresses accounting and financial reporting issues related to other postemployment benefits provided to employees of state and local government employers. Statement 75 will be effective for the Authority beginning with its fiscal year ending June 30, 2018.

GASB Statement No. 77, *Tax Abatement Disclosures* (Statement 77) establishes financial reporting standards for tax abatement agreements entered into by state and local governments. Statement 77 will be effective for the Authority beginning with its fiscal year ending June 30, 2017.

GASB Statement No. 78, *Pensions Provided through Certain Multiple – Employer Defined Benefit Pension Plans* (Statement 78) amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local government employers through a cost-sharing multiple-employer defined benefit pension plan. Statement 78 will be effective for the Authority beginning with its fiscal year ending June 30, 2017.

GASB Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14* (Statement 80) amends the blending requirements for the financial statement presentation of component units of all state and local governments. Statement 80 will be effective for the Authority beginning with its fiscal year ending June 30, 2017.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements* (Statement 81) aims to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Statement 81 will be effective for the Authority beginning with its fiscal year ending June 30, 2018.

Notes to Financial Statements

GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73* (Statement 82) addresses issues regarding 1) the presentation of payroll – related measures in required supplementary information, 2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes and 3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. Statement 82 will be effective for the Authority beginning with its fiscal year ending June 30, 2018.

The Authority's management has not yet determined the effect these Statements will have on its financial statements.

Note 2. Cash and Investments

Cash and cash equivalents as of June 30, 2016 includes \$898,023 at two banks. Funds of the Authority on deposit in these banks are over the FDIC insured amount. Under the Virginia Security for Public Deposits Act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. Savings and loan institutions are required to collateralize 100% of deposits in excess of FDIC limits.

The Authority formally adopted an investment policy on January 20, 2006. The objective of the Authority's investment portfolio is to meet cash requirements for ongoing operations as well as long term investment strategy. Investments shall include only those that are authorized by the Code of Virginia.

Note 3. Restricted Cash

Funds designated for scholarships are held as restricted funds. Amount restricted for scholarships as of June 30, 2016 and 2015 is \$380 for both years.

Funds related to the Strasburg Road property are held as a restricted fund. Amount restricted for future insurance premium payments as of June 30, 2016 and 2015 is \$27,199 for both years.

Note 4. Commitments and Contingencies

The Authority is contingently liable for a bond entered into on November 25, 1996 for \$4,125,000 with the County of Warren and the Town of Front Royal. The County of Warren is liable for 80% of the bond payments each fiscal year. The County of Warren allocates funds for the bond payments on a yearly basis. In any year the County does not allocate the bond payments, the Authority becomes liable for the County's portion of the bond payment. The remaining 20% of the bond payments are paid by the Town of Front Royal. As of June 30, 2016, the remaining principal portion was approximately \$355,000.

The Authority is contingently liable for a bond entered into on May 1, 2010, revised in 2013, for \$7,635,000 with the County of Warren. In any year the County does not allocate bond payments, the Authority becomes liable for the County's portion of the bond payment. As of June 30, 2016, the remaining principal portion was approximately \$6,820,000.

The Authority entered into a contract for services related to the Criminal Justice Academy. The remaining commitment as of June 30, 2016 is \$396,508.

Notes to Financial Statements

The Authority entered into a contract for services related to the Leach Run Parkway. The remaining commitment as of June 30, 2016 is \$7,882,135. During the year, the Town started making payments on behalf of the Authority related to this contract. If payments are not made by the Town, the Authority is liable for the payments.

The Authority entered into various contracts for wetland credits. As of June 30, 2016, the remaining commitment for wetland credits related to Leach Run Parkway is \$158,588. Additionally, as of June 30, 2016, the remaining commitment for wetland credits related to the Royal Phoenix Project is \$175,638.

The Authority is subject to routine litigation incidental to its business. Management does not expect that any of the routine litigation will result in a material loss to the Authority.

Note 5. Notes Receivable

Notes receivable as of June 30, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Note receivable from Jerry Eggleston, \$65,000, interest at 5.5%, payable in monthly installments of \$951. Note was due in full on February 15, 2010. Due to economic hardships, note holder was making principal payments of \$300 a month until they were able to pay the loan in full. The Authority determined the note receivable was uncollectible and wrote off the remaining balance in 2016.	\$ --	\$ 5,048
Note receivable from Judith Canterbury, \$10,000, interest at 6.5%, payable in monthly installments of \$196. Note was due in full April 10, 2013. Due to economic hardships, note holder is currently making installments of \$50 until they are able to pay the loan in full.	6,092	6,692
Note receivable from Daryl and Vicki Davison, \$75,000, interest at 6.5%, payable in monthly installments of \$653. Note was due in full June 25, 2013. The Authority negotiated new repayment terms in July 2013 as follows: interest at 4.5%, payable in monthly installments of \$593.	44,360	48,947
Note receivable from Paul Bakos, \$20,000, interest at 6.75%, payable in monthly installments of \$177. Note was due in full December 10, 2011. The Authority entered into an agreement with loanholder in March 2012 to pay \$300 per month until loan paid in full. The Authority determined the note receivable was uncollectible and wrote off the remaining balance in 2016.	--	11,545
Note receivable from Kathleen Helm-Soranzo, \$15,000, interest at 4.75%, payable in monthly installments of \$106. Note was due in full August 15, 2014. The Authority negotiated new repayment terms in August 2014 as follows: interest at 4.5%, payable in monthly installments of \$101.	10,599	10,899

Notes to Financial Statements

	<u>2016</u>	<u>2015</u>
Note receivable from Michelle O'Leary, \$10,000, interest at 6.5%, payable in monthly installments of \$87, originally due in full September 28, 2012. The Authority negotiated new repayment terms in 2012 as follows: interest at 6.5%, payable in monthly installments of \$100, due in full October 1, 2022. The Authority determined the note receivable was uncollectible and wrote off the remaining balance in 2016.	--	6,936
Note receivable from Bruce Coulliette, \$50,000, interest at 6.5%, monthly installments of \$436 due in full December 2, 2013. The Authority negotiated new repayment terms in April 2014 as follows: interest at 6.5%, payable in monthly installments of \$436, payable in full March 18, 2019.	16,542	20,902
Note receivable from Anita Johnson and Jay Olexa, \$25,000, interest at 6.5%, payable in monthly installments of \$284, due in full November 3, 2018.	18,251	18,801
Note receivable from Terri and Thomas Eshelman, \$50,000, interest at 5.75%, payable in monthly installments of \$415. Note was due in full on July 7, 2014. The Authority negotiated new repayment terms in August 2014 as follows: interest at 4.5%, payable in monthly installments of \$423.	30,720	34,615
Note receivable from Robert A. DeBrueler, \$3,000, interest at 6.5%, payable in monthly installments of \$92, due in full May 26, 2013. Due to economic hardships, note holder was making installments as able until loan was paid in full. Note receivable was paid in full in 2016.	--	747
Note receivable from Craig Laird, \$10,000, interest at 4.75%, payable in monthly installments of \$140, due in full February 17, 2018.	1,568	3,613
Note receivable from Front Royal Cardinals, Inc., \$6,000, interest at 4.5%, payable in monthly installments of \$83, due in full June 14, 2018. The Authority negotiated new terms in February 2016 that increased the note receivable balance to \$8,211. The new repayment terms are as follows: interest at 4.5%, payable in monthly installments of \$153, due in full February 10, 2021.	7,644	2,731
Note receivable from Herb Melrath, \$26,000 (\$6,000 added in July 2012), interest at 4.5%, payable in monthly installments of \$260, due in full July 3, 2022. Note receivable was paid in full in 2016.	--	19,252
Note receivable from Megan Sidorov, \$9,800, interest at 4.25%, payable in monthly installments of \$155, due in full February 15, 2019.	5,066	5,766
Note receivable from Patrick Ridgeley and Mike Bryzinski, \$9,500, interest at 4.5%, payable in monthly installments of \$132, due in full May 14, 2020.	8,915	8,915

Notes to Financial Statements

	2016	2015
Note receivable from Tammy Carlyle, \$9,000, interest at 4.5%, payable in monthly installments of \$125, due in full October 2, 2020.	6,810	7,204
Note receivable from Drivers Choice Training Center, LLC, \$14,000, interest at 4%, payable in monthly installments of \$316, due in full October 28, 2017.	2,216	8,724
Note receivable from Mirandum Pictures, \$10,000, interest at 4.5%, payable in monthly installments of \$186, due in full April 17, 2019. Note receivable was paid in full in 2016.	--	8,020
Note receivable from The Rusty Den, \$10,000, interest at 4.5%, payable in monthly installments of \$186, due in full April 17, 2019.	9,017	9,017
Note receivable from Michael Kitts and Eric Adamson, \$100,000, interest at 4%, payable in monthly installments of \$1,012, due in full May 28, 2024. Note receivable is a result of the Authority entering into an intermediary relending program with the U.S. Department of Agriculture. Proceeds received by the Authority from the borrower will be used to pay back the Authority's note payable with the USDA.	85,252	92,403
Note receivable from Michael Silek and James Mclaurin, \$25,000, interest at 4.0%, payable in monthly installments of \$185, due in full July 2, 2029. Note receivable was paid in full in 2016.	--	10,250
Note receivable from Fork Improvement Association, Inc., \$8,500, interest at 4.0%, payable in monthly installments of \$157, due in full May 1, 2020.	6,933	8,372
Note receivable from Shenandoah Confections, \$7,000, interest at 4.5%, payable in monthly installments of \$131, due in full September 11, 2019. The Authority negotiated new terms in July 2015 that increased the note receivable balance to \$8,048. The new repayment terms are as follows: interest at 4.0%, payable in monthly installments of \$148, due in full July 2020.	7,053	6,048
Note receivable from Optimum Impact, LLC, \$10,000, interest at 4.0%, payable in monthly installments of \$137, due in full April 9, 2022.	8,629	9,793
Note receivable from Arthi Marti (AKM Properties), \$125,000, interest at 4.5%, payable in monthly installments of \$1,295, due in full September 25, 2024. Note receivable is a result of the Authority entering into an intermediary relending program with the U.S. Department of Agriculture. Proceeds received by the Authority from the borrower will be used to pay back the Authority's note payable with the USDA.	106,972	117,447

Notes to Financial Statements

	2016	2015
Note receivable from William Ellis (Keystone Transport Solutions, LLC), \$150,000, interest at 5.0%, payable in monthly installments of \$1,591, due in full December 18, 2024. Note receivable is a result of the Authority entering into an intermediary relending program with the U.S. Department of Agriculture. Proceeds received by the Authority from the borrower will be used to pay back the Authority's note payable with the USDA.	133,019	144,143
Note receivable from David and Stacy Gedney (J's Gourmet), \$150,000, interest at 4.5%, payable in monthly installments of \$1,555, due in full April 3, 2025. Note receivable is a result of the Authority entering into an intermediary relending program with the U.S. Department of Agriculture. Proceeds received by the Authority from the borrower will be used to pay back the Authority's note payable with the USDA.	135,767	148,012
Note receivable from HotShots Photography, \$3,500, interest at 4.5%, payable in monthly installments of \$65, due in full July 23, 2020.	2,916	--
Note receivable from Property Management Plus, LLC, \$10,000, interest at 4.5%, payable in monthly installments of \$186, due in full October 9, 2020.	8,698	--
Note receivable from B&G Goods, LLC, \$39,251, interest at 3.75%, payable in monthly installments of \$393, due in full February 10, 2026.	37,897	--
Note receivable from AMS, LLC, \$5,000, interest at 4.5%, payable in monthly installments of \$93, due in full October 23, 2020.	4,394	--
Note receivable from ITFederal, LLC, \$10,000,000, interest at 3.0%, payable in monthly installments of \$42,160 (including escrow of \$2,160), due in full September 16, 2045.	9,885,079	--
	\$10,590,409	\$ 774,842
Less current maturities	(337,762)	(107,750)
Less allowance for doubtful accounts	(77,484)	(77,484)
	\$ 10,175,163	\$ 589,608

Annual principal requirements to amortize long-term notes receivable are as follows:

Year Ending June 30,		
2017	\$	337,762
2018		281,161
2019		285,178
2020		286,030
2021		286,310
Thereafter		9,113,968
Totals	\$	10,590,409

Notes to Financial Statements

Note 6. Long-Term Debt

The following is a summary of the changes in long-term debt for the years ended June 30, 2016 and 2015:

	Balance			Balance
	June 30, 2015	Proceeds	Retirements	June 30, 2016
Avtex project	\$ 2,060,000	\$ --	\$ --	\$ 2,060,000
IRP Loan	500,000	--	--	500,000
United Bank (Line of Credit)	2,000,000	750,000	750,000	2,000,000
United Bank (Avtex Administration Building)	111,309	--	29,461	81,848
First Bank (Success Industrial Park)	197,783	--	6,160	191,623
First Bank (404 Fairground Road)	293,375	--	9,592	283,783
First Bank (Happy Creek Technology Park)	476,513	--	14,843	461,670
First Bank (Stephens Industrial Park)	656,312	--	20,440	635,872
First Bank (Baugh Drive)	365,853	--	11,396	354,457
First Bank (Ramsey)	907,949	--	37,988	869,961
First Bank (1497 Happy Creek)	345,398	--	16,646	328,752
First Bank (NVA)	250,154	--	7,788	242,366
First Bank (Benson)	27,209	--	1,209	26,000
First Bank (1425 Happy Creek)	145,335	--	6,991	138,344
First Bank (1433 Happy Creek)	391,798	--	18,811	372,987
First Bank (Strasburg Road)	1,773,042	--	47,171	1,725,871
First Bank (Stokes Building)	502,675	--	13,150	489,525
First Bank & Trust Company (ITFederal)	--	10,000,000	19,033	9,980,967
	<u>\$ 11,004,705</u>	<u>\$ 10,750,000</u>	<u>\$ 1,010,679</u>	<u>\$ 20,744,026</u>

	Balance			Balance
	June 30, 2014	Proceeds	Retirements	June 30, 2015
Avtex project	\$ 2,060,000	\$ --	\$ --	\$ 2,060,000
IRP Loan	90,000	410,000	--	500,000
United Bank (Line of Credit)	817,193	1,182,807	--	2,000,000
United Bank (Avtex Administration Building)	136,151	--	24,842	111,309
First Bank (Success Industrial Park)	205,004	--	7,221	197,783
First Bank (404 Fairground Road)	304,620	--	11,245	293,375
First Bank (Happy Creek Technology Park)	493,916	--	17,403	476,513
First Bank (Stephens Industrial Park)	680,555	--	24,243	656,312
First Bank (Baugh Drive)	379,214	--	13,361	365,853
First Bank (Ramsey)	951,346	--	43,397	907,949
First Bank (1497 Happy Creek)	364,336	--	18,938	345,398
First Bank (NVA)	259,146	--	8,992	250,154
First Bank (Benson)	28,587	--	1,378	27,209
First Bank (1425 Happy Creek)	153,290	--	7,955	145,335
First Bank (1433 Happy Creek)	418,513	--	26,715	391,798
First Bank (Strasburg Road)	1,824,821	--	51,779	1,773,042
First Bank (Stokes Building)	--	510,000	7,325	502,675
	<u>\$ 9,166,692</u>	<u>\$ 2,102,807</u>	<u>\$ 264,794</u>	<u>\$ 11,004,705</u>

Notes to Financial Statements

Notes payable as of June 30, 2016 and 2015, are as follows:

	2016	2015
<p>Note payable to FMC Corporation, the Bankruptcy Trustee for Avtex Corporation and the U.S. Government related to the Avtex property, \$1,275,372 with interest at 6.50% payable in one lump sum installment due June 30, 2008. This note is secured by a deed of trust on real property. FMC Corporation did not require payment to be made on June 30, 2008. The Authority is waiting for a revised note payable to be received from FMC and the EPA. The terms of the new note could differ from the current terms but have not yet been determined.</p>	\$ 2,060,000	\$ 2,060,000
<p>Note payable to United Bank (Avtex Administration Building), \$400,000 with interest at 4.6%. This note was refinanced in January 2015 with interest at 3.98%, payable in monthly interest and principal payments of \$2,785 to January 2019 when the remaining balance is due. This note is secured by a deed of trust on real property.</p>	81,848	111,309
<p>Note payable to First Bank (Success Industrial Park), \$215,067 with interest at 2.56%. This note was refinanced in January 2016 with interest at 2.56%, payable in monthly principal and interest payments of \$641 to January 2018 when the remaining balance is due. This note is secured by a deed of trust on real property.</p>	191,623	197,783
<p>Note payable to First Bank (404 Fairground Road), \$320,289 with interest at 2.56%. This note was refinanced in January 2016 with interest at 2.56%, payable in monthly principal and interest payments of \$999 to January 2018 when the remaining balance is due. This note is secured by a deed of trust on real property.</p>	283,783	293,375
<p>Note payable to First Bank (Happy Creek Technology Park), \$518,165 with interest at 2.56%. This note was refinanced in January 2016 with interest at 2.56%, payable in monthly principal and interest payments of \$1,546 to January 2018 when the remaining balance is due. This note is secured by a deed of trust on real property.</p>	461,670	476,513
<p>Note payable to First Bank (Stephens Industrial Park), \$713,949 with interest at 2.56%. This note was refinanced in January 2016 with interest at 2.56%, payable in monthly principal and interest payments of \$2,129 to January 2018 when the remaining balance is due. This note is secured by a deed of trust on real property.</p>	635,872	656,312

Notes to Financial Statements

	2016	2015
<p>Note payable to First Bank (Baugh Drive), \$397,832 with interest at 2.56%. This note was refinanced in January 2016 with interest at 2.56%, payable in monthly principal and interest payments of \$1,187 to January 2018 when the remaining balance is due. This note is secured by a deed of trust on real property.</p>	354,457	365,853
<p>Note payable to First Bank (Ramsey), \$1,013,405, with interest at 2.56%. This note was refinanced in January 2016 with interest at 2.56%, payable in monthly principal and interest payments of \$3,956 to January 2018 when the remaining balance is due. This note is secured by a deed of trust on real property.</p>	869,961	907,949
<p>Note payable to First Bank (1497 Happy Creek), \$391,530 with interest at 2.56%. This note was refinanced in January 2016 with interest at 2.56%, payable in monthly principal and interest payments of \$1,734 to January 2018 when the remaining balance is due. This note is secured by a deed of trust on real property.</p>	328,752	345,398
<p>Note payable to First Bank (NVA Properties), \$271,869 with interest at 2.56%. This note was refinanced in January 2016 with interest at 2.56%, payable in monthly principal and interest payments of \$811 to January 2018 when the remaining balance is due. This note is secured by a deed of trust on real property.</p>	242,366	250,154
<p>Note payable to First Bank (Benson), \$30,580 with interest at 2.56%. This note was refinanced in January 2016 with interest at 2.56%, payable in monthly principal and interest payments of \$126 to January 2018 when the remaining balance is due. This note is secured by a deed of trust on real property.</p>	26,000	27,209
<p>Note payable to First Bank (1425 Happy Creek), \$164,710 with interest at 2.56%. This note was refinanced in January 2016 with interest at 2.56%, payable in monthly principal and interest payments of \$728 to January 2018 when the remaining balance is due. This note is secured by a deed of trust on real property.</p>	138,344	145,335
<p>Note payable to First Bank (1433 Happy Creek), \$449,245 with interest at 2.56%. This note was refinanced in January 2016 with interest at 2.56%, payable in monthly principal and interest payments of \$1,959 to January 2018 when the remaining balance is due. This note is secured by a deed of trust on real property.</p>	372,987	391,798

Notes to Financial Statements

	2016	2015
Note payable to the U.S. Department of Agriculture as a result of the Authority entering into an intermediary relending program. Interest at 1%. Interest only payments beginning in April 2015. Principal and interest payments to begin in April 2018; to be paid in full by April 2048. Note is secured by related notes receivable and the equipment of the Authority.	500,000	500,000
The Authority borrowed against a \$2,000,000 line of credit. Interest at 2.05%. Interest only payments to begin in July 2014. Payment in full plus any accrued unpaid interest in June 2017. Line of credit is unsecured.	2,000,000	2,000,000
Note payable to First Bank (5210 and 5262 Strasburg Rd.), \$1,850,000 with interest at 2.95%. This note was refinanced in January 2016 with interest at 2.95%, payable in monthly interest and principal payments of \$7,342 to December 2018 when the remaining balance is due. This note is secured by a deed of trust on the property.	1,725,871	1,773,042
Note payable to First Bank (Stokes Property), \$510,000 with interest at 2.75%. This note was refinanced in January 2016 with interest at 2.75%, payable in monthly interest and principal payments of \$2,029 to December 2017 when the remaining balance is due. This note is secured by a deed of trust on real property.	489,525	502,675
Note payable to First Bank & Trust Company, \$10,000,000, with interest at 4.35% payable in monthly principal and interest payments of \$40,000 to December 2022 when the remaining balance is due. This note is secured by a deed of trust on property located in Front Royal, VA consisting of 117 acres known as the former Avtex site as well as a \$2,000,000 deed of trust in the name of the EPA and FMC. The purpose of the loan is to provide financing for the benefit of ITFederal, LLC in its relocation to the Avtex Site.	9,980,967	--
Total long-term debt	\$ 20,744,026	\$11,004,705
Less current maturities	<u>(2,227,803)</u>	<u>(2,284,465)</u>
	<u>\$ 18,516,223</u>	<u>\$ 8,720,240</u>

Annual principal requirements to amortize long-term debt are as follows:

Year Ending June 30,	Principal
2017	\$ 2,227,803
2018	4,426,197
2019	1,728,709
2020	68,106
2021	70,608
Thereafter	<u>12,222,603</u>
Total	<u>\$ 20,744,026</u>

Notes to Financial Statements

The \$10,000,000 note payable to First Bank & Trust Company requires the Authority to maintain a certain global debt service ratio. At June 30, 2016, the Authority complied with the requirement.

Note 7. Leases

The Authority has entered into various leases as the lessor of properties.

On May 1, 2015, the Authority entered into a twelve month lease with Optimum Impact, LLC for 2,600 square feet in a building at 400-B Kendrick Lane with an expiration date of April 30, 2016. The lease has an option to renew for a one year period beginning May 1, 2016 to April 30, 2017. The Authority is scheduled to receive monthly payments of \$750 from May 1, 2016 to October 31, 2016 and \$1,000 from November 1, 2016 to April 30, 2017.

On August 1, 2015, the Authority renewed a twelve month lease with Visionary Optics, LLC for 6,000 square feet in a building at 1325 Progress Drive with an expiration date of July 31, 2016. Under the lease, the Authority receives monthly payments of \$2,000.

On February 1, 2016, the Authority renewed a twelve month lease with Amerisist dba, (America House Assisted Living, LLC) for 3,330 square feet in a building at 400-A Kendrick Lane. The lease expires on January 31, 2017 with an option to renew for the one year period beginning February 1, 2017 to January 31, 2018. Under the lease, the Authority receives monthly payments of \$3,400.

On September 26, 2011, the Authority entered into a fifteen-year lease with Northern Shenandoah Valley Regional Commission for 3,620 square feet in a building at 400-E Kendrick Lane. The lease will expire on September 30, 2026. The authority will receive monthly payments of \$1,500 for the first two years, \$1,750 for years three to five, \$2,000 for years six through eight, \$2,250 for years nine through twelve, and \$2,500 for years thirteen through fifteen. The Authority will also receive, in addition to monthly rental payments, a fee for improvements to the space in the amount of \$63,246 in monthly installments of \$375.

On January 1, 2016, the Authority renewed a twelve month lease with Joseph A. Baldwin for 185 acres of open land at Happy Creek Industrial Park with an expiration date of December 31, 2016. Under the lease, the Authority receives a payment of \$1,800 annually.

On December 14, 2015, the Authority entered into a twelve month lease with ITFederal, LLC for 4,000 square feet in a building at 404 Fairground Road. The lease expires on December 14, 2016 with an option to extend the term for another twelve months. Under the lease, the Authority receives a lump sum rental payment of \$6,000.

Rental income for the years ending June 30, 2016 and 2015 was \$96,100 and \$94,525, respectively.

Notes to Financial Statements

Annual receivables under these leases are as follows:

Year Ending June 30,	
2017	\$ 52,050
2018	30,000
2019	24,000
2020	26,250
2021	27,000
Thereafter	<u>150,750</u>
Total	<u>\$ 310,050</u>

Note 8. Deferred Compensation

The Authority has a deferred compensation plan (the Plan) covering their three full-time employees. The Authority makes a discretionary contribution to the Plan each year. For 2016 and 2015, the contribution was equal to 10% of the participants' salary. Total expense for the years ended June 30, 2016 and 2015 was \$20,970 and \$19,600, respectively.

Note 9. Avtex

In March 2000, a deed of trust was executed which transferred the Front Royal site of Avtex Fibers to the Authority. The environmental contamination at the site was being remediated by FMC Corporation under a consent decree with the U.S. Department of Justice. The Authority is developing the 500-acre site into a 305-acre park and wildlife refuge, a 30-acre soccer complex and a 165-acre business park. The Authority is pursuing various Federal and state grants to assist with the redevelopment. The U.S. Department of Justice and the Environmental Protection Agency have entered into an agreement with the Authority for a covenant not-to-sue relating to the possible environmental liabilities. Additionally, the Authority purchased a \$10,000,000, three year third party Pollution Legal Liability policy to cover potential additional environmental exposure. The policy expired on August 30, 2013. At that time, the Authority decided not to renew insurance coverage as the remediation has been completed and coverage is no longer considered necessary. On the eighth anniversary of the transfer date, the Authority has the option to pay FMC Corporation an amount equal to the net proceeds that would have been payable to FMC Corporation had the unsold property been sold for fair market value. At this time, the Authority also has the option to convey the unsold property, with general warranties of title, to one or more persons, entities, bodies politic or political subdivisions designated by FMC Corporation upon which the Authority would receive payment of \$1,000.

Notes to Financial Statements

Note 10. Warren County Manager, LLC and Warren County Landlord, LLC

Warren County Manager, LLC and Warren County Landlord, LLC were incorporated as Virginia Limited Liability Companies on August 16, 2010. Warren County Manager, LLC is owned 100% by the Authority. Warren County Landlord, LLC is owned 97% by Warren County Manager, LLC and 3% by Anthem Health Plans of Virginia, Inc. The LLC's were created to obtain Historic Rehabilitation Tax Credits from the renovation of the Luray Avenue Middle School. Warren County Landlord, LLC was granted \$4,678,522 of Historic Rehabilitation Tax Credits in April 2011 from the Commonwealth of Virginia. The credits have been passed through to Warren County Public Schools.

Note 11. Fair Value Measurements

To the extent available, the Authority's land investments are recorded at fair value as of June 30, 2016 and 2015. GASB Statement No. 72 – *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants used to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis.

Level 1	Investments whose values are based on quoted prices (unadjusted) for identical assets (or liabilities) in active markets that a government can access at the measurement date.
Level 2	Investments with inputs – other than quoted prices included within Level 1 – that are observable for an asset (or liability), either directly or indirectly.
Level 3	Investments are classified as Level 3 have unobservable inputs for an asset (or liability) and may require a degree of professional judgment.

Notes to Financial Statements

The following summarizes the Authority's investments within the fair value hierarchy at June 30, 2016 and 2015:

	June 30, 2016			
	Fair Value	Level 1	Level 2	Level 3
Land investments	\$ 10,406,861	\$ --	\$ --	\$ 10,406,861
	June 30, 2015			
	Fair Value	Level 1	Level 2	Level 3
Land investments	\$ 10,841,400	\$ --	\$ --	\$ 10,841,400

Note 12. Restatement

In accordance with GASB Statement No. 72 – *Fair Value Measurement and Application*, the Authority's land investments were adjusted to fair value as of July 1, 2015. The Authority's investments were decreased from \$11,627,414 to \$10,841,400, a decrease of \$786,014 to net position.

Note 13. Subsequent Events

The Avtex note payable to FMC Corporation was due to be paid June 30, 2008. FMC did not require payment at that time, and has continued to not require payment through June 30, 2016. The Authority is waiting for a revised note payable to be received from FMC and the EPA. The terms of the new note could differ from the current terms but have not yet been determined.

On July 7, 2016, the Authority purchased Block 13 of Reliance Road for \$68,000.

On September 22, 2016, the Authority issued a \$6,000,000 bond to Wells Fargo Bank, a national banking association, on behalf of Christendom Educational Corporation, a nonstock, nonprofit corporation.

The Authority has evaluated all subsequent events through December 5, 2016, the date the financial statements were available to be issued. The Authority has determined there are no additional subsequent events that require recognition or disclosure.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board Members
Industrial Development Authority of the
Town of Front Royal and the County
of Warren, Virginia
Front Royal, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Industrial Development Authority of the Town of Front Royal and County of Warren, Virginia, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Industrial Development Authority of the Town of Front Royal and County of Warren, Virginia's basic financial statements, and have issued our report thereon dated December 5, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Industrial Development Authority of the Town of Front Royal and County of Warren, Virginia's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Industrial Development Authority of the Town of Front Royal and County of Warren, Virginia's internal control. Accordingly, we do not express an opinion on the effectiveness of Industrial Development Authority of the Town of Front Royal and County of Warren, Virginia's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Industrial Development Authority of the Town of Front Royal and County of Warren, Virginia's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Grant, Hyde & Barbour, P.C.".

Winchester, Virginia
December 5, 2016